

**SOUTH CAROLINA DEPARTMENT
OF JUVENILE JUSTICE**

COLUMBIA, SOUTH CAROLINA

STATE AUDITOR'S REPORT

JUNE 30, 2000

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	5
PAYROLL	
Pay Schedule	6
Termination of Employment	7
Computation of Pay	8
CLOSING PACKAGES	
Introduction	9
Fixed Assets	10
Compensated Absences	11
Recommendations	13
RECONCILIATIONS	15
CAPITAL PROJECTS	16
LEGAL SERVICES	18
DISBURSEMENT CONTROLS AND CANCELLATION OF VOUCHER DOCUMENTATION	18
SECTION B - OTHER WEAKNESS NOT CONSIDERED MATERIAL	20
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE (SFFA)	21
SECTION C - STATUS OF PRIOR FINDINGS	22
MANAGEMENT'S RESPONSE	23

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 31, 2001

The Honorable Jim Hodges, Governor
and
Ms. Gina E. Wood, Director
South Carolina Department of Juvenile Justice
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the management of the South Carolina Department of Juvenile Justice (the Department), solely to assist you in evaluating the performance of the Department for the fiscal year ended June 30, 2000, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and we used estimations and other procedures to determine the reasonableness of collected and recorded amounts by revenue account. We also tested the accountability and security over certain documents issued for money. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Department, and were paid in conformity with State laws and regulations; if the related acquired goods and/or services were procured in accordance with applicable laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Legal Services and Disbursement Controls and Cancellation of Voucher Documentation in the Accountant's Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and selected ones who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in Payroll in the Accountant's Comments section of this report.
4. We tested randomly selected recorded journal entries and all operating and inter-agency appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. Our finding as a result of these procedures is presented in Disbursement Controls and Cancellation of Voucher Documentation in the Accountant's Comments section of this report.

5. We tested selected entries and monthly totals in the subsidiary records of the Department to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
6. We obtained all monthly reconciliations prepared by the Department for the year ended June 30, 2000, and tested fiscal month 13 reconciliations of balances in the Department's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Department's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Department's accounting records and/or in STARS. We judgmentally selected the year-end reconciliations for testing. Our finding as a result of these procedures is presented in Reconciliations in the Accountant's Comments section of this report.
7. We tested the Department's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2000. Our findings as a result of these procedures are presented in Section A in the Accountant's Comments section of this report.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the Report on Agreed-Upon Procedures regarding the accounting records and internal controls of the Department resulting from the engagement performed by other accountants for the fiscal year ended June 30, 1999, to determine if adequate corrective action has been taken. Our findings as a result of these procedures are presented in various comments in Sections A and B of the Accountant's Comments and as summarized in Section C – Status of Prior Findings in the Accountant's Comments section of this report.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2000, prepared by the Department and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our findings as a result of these procedures are presented in Closing Packages in the Accountant's Comments section of this report.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2000, prepared by the Department and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. Our finding as a result of these procedures is presented in Schedule of Federal Financial Assistance (SFFA) in the Accountant's Comments section of this report.

The Honorable Jim Hodges, Governor
and
Ms. Gina E. Wood, Director
South Carolina Department of Juvenile Justice
May 31, 2001

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Furthermore, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Department's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the management of the South Carolina Department of Juvenile Justice and is not intended to be and should not be used by anyone other than these specified parties.


Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

PAYROLL

Pay Schedule

The Department of Juvenile Justice (Department or DJJ) did not adhere to the State's "regular and permanent schedule for payment of employees" for specified twice-monthly payroll work periods when paying some employees. We tested personnel/payroll transactions and controls for 25 employees each in three tests (standard, new hires, and terminations). For four, seven, and four payments, respectively, the employees were paid on the wrong State pay date but in accordance with the Department's alternate schedule which was internally developed primarily to facilitate the timely and accurate determination and payment of overtime pay for its security personnel, such as juvenile corrections officers. The Department pays all employees on the State's established pay dates but the corresponding payroll periods differ for certain of the Department's employee classes from those on the State's permanent schedule. For the affected DJJ employees, the payroll period follows the agency's alternate payroll period schedule, based on weekly time sheets.

Proviso 72.24. of Part IB of the 1999-2000 Appropriation Act continued the established regular schedule for payment of employees beginning with the first fiscal year 2000 pay period of June 2 through June 16 of the prior year to be paid on July 1 and continuing on a twice-monthly schedule thereafter. The proviso also authorizes the State Budget and Control Board "to approve any changes to this schedule where circumstances are deemed justifiable." [The Appropriation Act for each fiscal year contains a similar proviso.] The Department could not provide us with documentation of the State Board's approval for its alternate schedule.

We recommend the Department revise its procedures to ensure that it pays all of its employees in accordance with the State's established payroll period/paydate schedule until and unless the State Budget and Control Board authorizes an alternate schedule for certain DJJ employee categories.

Termination of Employment

In the three separate personnel/payroll tests of 25, each, we determined that DJJ cancelled the final paychecks to three employees terminating their employment and replaced them with checks for the corrected amounts; paid two employees on the wrong payday on the State's regular schedule; and failed to remove two employees from the payrolls in a timely manner after they left the Department's employ. The Department made these changes three and nine months after the employees' termination dates. For another person who was hired as an hourly employee but never showed up to start the job, the field office did not notify the Department's Office of Human Resources (OHR) of this person's status until eight months later. Furthermore, in reviewing the personnel files to perform these procedures, we noted that the effective dates recorded on resignation/termination letters differed from the dates on the Personnel and Budget Management Accounting Control Sheet (PABMACS) in the employees' personnel files for seven employees.

When an employee terminates employment with the Department, the employee's supervisor must complete a PABMACS and submit it to OHR. As described above, the field supervisor did not always submit the PABMACS in time for OHR to process the transaction for the proper amount on the proper payroll period/payday. Also, field supervisors are not properly trained in the preparation of the PABMACS and are therefore likely to make errors when completing the form. In other situations, employees were not paid on the correct pay dates because time sheets for the final pay period worked were not submitted to Payroll on time. DJJ's written procedures specify when time sheets are due for which payroll.

An effective system of internal controls includes control procedures to ensure that the entity prepares and maintains proper and adequate documentation in its employee files to support all personnel and payroll transactions. In addition, controls should be in place to ensure that transactions are properly and timely processed and to detect and correct errors

and inconsistencies in a timely manner. In such a control environment, employees are adequately trained and knowledgeable to properly and timely perform their assigned duties and independent checks and verifications are included as control procedures.

We recommend the Department adequately train employees to properly complete PABMACS and develop and implement procedures to ensure field supervisors promptly and accurately notify OHR of all personnel transactions including terminations and submit time sheets promptly. In addition, we recommend that OHR and Payroll implement procedures for reviewing the accuracy and reasonableness of the information received from the field offices prior to paying employees. When there are errors and/or inconsistencies in the documentation, the procedures should describe how to resolve those matters and document that process and the results.

Computation of Pay

The Department miscalculated final pay in three of the 25 termination transactions tested. The Department used the wrong termination date when adjusting final pay for one employee, resulting in an overpayment of \$146. For another employee, the Department made a \$28 underpayment when it used the wrong annual base hours for calculating the employee's pay rate for valuing the payments for unused annual leave and compensatory time earned. The Department underpaid a third employee by \$37 because Payroll used the inaccurate information submitted by the employee's department head. As a result, the employee was not paid for four hours of annual leave taken because Payroll did not determine the accuracy of the information prior to relying on it. Also, our test of 25 new hire transactions revealed that the Department miscalculated the first pay for one employee. It paid the employee twice for overtime that had been accrued, resulting in a \$8 overpayment. A similar finding regarding computation of termination pay was described in the fiscal year 1999 report.

Section 8-11-30 of the 1976 South Carolina Code of Laws, as amended, states that it is unlawful for anyone to receive a salary from the State which is not due and for anyone employed by the State to pay salaries or moneys that are not due. Any violation is punishable by fine or imprisonment. In addition, an effective internal control system includes independent verification of information to the source records and independent checks of mathematical accuracy.

We recommend the Department pay the balances due to individuals who were underpaid and recover the overpayment. In addition, the Department should design and implement procedures for the independent verification of the information (e.g., pay rates, work hours, termination dates, leave balances) used in pay computations and independent reviews of those calculations. We further recommend that when DJJ detects or becomes aware of incorrect payroll amounts during its performance of independent review and verification procedures before the payroll voucher is approved or anytime thereafter, it should determine the causes of the errors and implement procedures to improve controls and prevent recurrence of such errors.

CLOSING PACKAGES

Introduction

The State Comptroller General obtains certain generally accepted accounting principles (GAAP) data for the State's financial statements from agency-prepared closing packages because the State's accounting system (STARS) is on a budgetary basis. We determined that the Department submitted to the Office of the Comptroller General (OCG) certain incorrectly prepared and/or misstated fiscal year-end 2000 closing packages.

To accurately report the Department's and the State's assets, liabilities, and current year operations, the GAAP closing packages must be complete and accurate. Furthermore,

Section 1.8 of the Comptroller General's GAAP Closing Procedures Manual (GAAP Manual) states, "Each agency's executive director and finance director are responsible for submitting . . . closing package forms . . . that are: ●Accurate and completed in accordance with instructions. ●Complete. ●Timely." Also, Section 1.8 requires an effective, independent supervisory review of each completed closing package and the underlying working papers and accounting records and completion of the reviewer checklist and lists the minimum review steps to be performed. It strongly suggests the Department assign the appropriate people to prepare and review closing packages. In addition, Section 1.9 directs agencies to keep working papers to support each amount and other information they enter on each closing package form.

The following outlines the errors noted on certain 2000 closing packages.

Fixed Assets

Fiscal year 2000 ending balances for land and improvements, buildings and improvements, and construction in progress (CIP) reported on the General Fixed Assets Summary Form differed from those in the Department's fixed assets subsidiary ledgers as of June 30, 2000. The Department reported net reclassifications to land (\$98,333) and buildings (\$8,328,112) on the summary form of \$8,426,445 for completed CIP; however, these transactions were not recorded in the Department's books. In response to our inquiries, Department personnel explained they had not had time to make the entries. A similar finding was described in the fiscal year 1999 report.

The June 30, 2000, closing package balance of \$11,092,139 reported for equipment equalled that on the Department's fixed assets active by type-category report; however, on the summary form, amounts reported for net corrections to prior year balances (\$984,696) and additions (\$1,617,707) did not. These amounts were understated by \$18,996 and \$5,840, respectively. Also, the Department overstated reported CIP additions by \$6,715 because it did

not reverse a prior year accrued payable. According to Department personnel, this was an oversight. We also noted several amounts reported on the Department's fixed assets support worksheet used to prepare the closing package did not agree to those on the Department's fund general ledger. Department personnel stated that adjustments may have been made to the books after the completion of the closing package. Despite evidence of supervisory review of the closing package and the applicable supporting documentation and completion of the reviewer checklist, the reviewer did not detect the errors.

GAAP Manual Section 3.8 provides guidance for preparation of the Fixed Assets Overview Questionnaire. Regarding reclassifications, it states, "Sometimes agencies move costs from one general fixed asset category to another. For example, agencies should move Construction in Progress costs to other fixed asset categories when construction projects are substantially complete." In addition, those instructions require retention of working papers supporting all information entered on the summary.

Compensated Absences

On its fiscal year 2000 compensated absences closing package, the Department reported 1734 employees [expressed in full-time equivalents (FTE)] earning annual leave at June 30. However, the agency's year-end leave liability report had a FTE employee count of 1558. The Department assigned responsibility for preparing this closing package to a Budget department employee who informed us she was not familiar with the closing package. In a discussion with Finance personnel, we were told the Department had 1602 employees earning annual leave as of June 30, 2000. The Department could not explain these differences.

To verify the reported leave liability, we tested the balances for 10 employees listed on the agency's leave liability report which is the agency's supporting documentation for this closing package. For two employees, the detail leave records did not support the balances on the leave liability report. We concluded that the annual leave balances on that report may be inaccurate. Department personnel explained that leave taken would have been entered into

the leave system after the report was run when field departments did not submit leave slips by the deadline for the fiscal year-end cutoff. A similar finding was described in the fiscal year 1999 report.

Individual supervisors at field offices of the Department are responsible for maintaining the holiday and overtime compensatory leave records for their employees. Field supervisors prepared spreadsheets with separate balances by employee of holiday and overtime compensatory time as of June 30 and submitted them to the OHR. The person responsible for completing the closing package manually summarized the information and entered the results on the closing package. We tested the balances on the spreadsheets for five employees and requested supporting documentation from the Department to substantiate each balance. For two employees, the compensatory time balances were inconsistent with the supporting documentation. For another employee, no overtime compensatory time was reported at June 30 but the individual was paid for overtime in July 2000 when DJJ paid its employees for the June payroll periods. We scanned the summary sheet of compensatory time balances and noted for several employees the overtime paid in July was greater than the liability at June 30. We also noted that overtime compensatory time and holiday compensatory time had been reversed on two field office spreadsheets and later were listed in the wrong columns on the summary sheet. As a result, these balances are reported in the wrong compensatory leave categories on the closing package.

We determined, based on our review of supporting documentation and discussions with management, some field office employees were not required to use holiday leave (or be paid for the time worked) within 90 days.

GAAP Manual Section 3.17 guidance requires the Department to maintain working papers to support each amount reported on the Compensated Absences Summary Form to include for each employee the accumulated unused annual leave balances and the values of

the liabilities for holiday compensatory time, overtime compensatory time, and annual leave. Section 3.17 also states that the agency's total number (expressed in FTE's) of employees earning annual leave should include all full and part-time employees who earn annual leave. State Human Resource Regulation 19-703.06 C.4. provides that holiday compensatory leave credits must be used within 90 days of the date earned and Regulation C.7. requires that, after the 90 days, the employee shall be compensated for the holiday. Also, the Department's policy requires such payment. Regulation 19.703.03 requires the agency to keep accurate records of all hours worked and all leave taken and states the agency head has ultimate responsibility for the accuracy and proper maintenance of attendance and leave records. Regulation 19.703.04 sets forth the requirement for overtime compensatory time including record keeping and payment therefor.

An effective internal control system requires that knowledgeable and adequately trained employees be assigned responsibility for performing and supervising job duties; adequate supporting documentation be prepared and retained; and financial and related information be properly recorded in the accounting and other agency records and be properly summarized in reports prepared therefrom.

Recommendations

We recommend that the Department assign staff to prepare and review closing packages who are knowledgeable of the applicable GAAP; adequately trained in and familiar with the applicable GAAP Manual guidance and requirements; and thoroughly familiar with the applicable agency data for completion of the assigned closing package. Also, we recommend the agency implement procedures to help ensure that all closing packages including the Closing Package Control Checklist contain accurate and complete information in accordance with the GAAP Manual instructions. As required by the GAAP Manual, the Department's closing package procedures should include an effective independent review before submitting

the forms to the OCG. Each reviewer should be a responsible supervisor other than the preparer of the form(s) being reviewed. Each closing package review at a minimum should include the following steps: determine the accuracy and adequacy of documentation prepared, retained, and cross-referenced to support each closing package response (monetary and other); determine the reasonableness of each closing package response; agree each response to the closing package worksheets and other supporting documentation and to the accounting and other source records; verify the methodology and formulas used in the supporting documentation and the computations in the working papers and on the closing package; and complete the applicable Closing Package Reviewer Checklist. When the Department's employees who are responsible for preparing and reviewing closing package forms do not understand the forms and/or instructions, they should contact the OCG for assistance.

We recommend DJJ record adjustments by fixed asset account in its accounting records and in its detail fixed assets records and report beginning balance adjustments on its fixed assets closing packages as necessary. In addition, we recommend the Department implement procedures to ensure the accuracy of its fixed assets records, including recording audit adjustments, and preparing fixed asset category reclassification journal entries.

We recommend the Department implement fiscal year-end procedures to ensure there is proper cutoff of all leave records (including those for holiday and overtime compensatory time and annual leave reported on the compensated absences closing package) and to ensure compensatory leave is taken and paid in accordance with State policies. Also, we recommend the Department evaluate its policy regarding responsibility for compensatory leave records to determine whether they should continue to be maintained in the field offices or whether responsibility therefor should be transferred to the OHR. The field office supervisors should be reminded of the importance of accurate leave information and should be trained in accurately maintaining separate detail records for holiday and for overtime compensatory leave and properly reporting leave information.

RECONCILIATIONS

Section 2.1.7.20 C. of the Comptroller General's Policies and Procedures Manual (STARS Manual) requires that all agencies perform regular monthly reconciliations of revenues, expenditures, federal programs, and ending cash balances in their accounting records and those in STARS as shown on the OCG reports in order to timely detect and correct errors. These reconciliations must be performed at least monthly on a timely basis, be documented in writing in an easily understandable format with all supporting working papers maintained for audit purposes, be signed and dated by the preparer, and be reviewed and approved in writing by an appropriate agency official other than the preparer. Furthermore, the STARS Manual states that errors discovered through the reconciliation process must be promptly corrected in the agency's accounting records and/or STARS as appropriate.

For fiscal year 2000 we noted the following deficiencies in reconciliations and reconciliation procedures:

1. The Department did not prepare all required reconciliations for each month of fiscal year 2000. Reconciliations were performed for October (expenditures and federal programs only); November and December (revenues only); and February and March (expenditures only). All reconciliations were prepared at fiscal year-end fiscal month 13 (FM13). None of the reconciliations were signed and dated by the preparer. There was no evidence that the reconciliations were reviewed.
2. The Department prepared the FM13 cash accounts reconciliations using balances in a preliminary (pre-close) general ledger.
3. The Department reconciled only one of its four federal subfunds when it reconciled its FM13 balances.

A similar finding was described in the fiscal year 1999 report.

The Department assigned two temporary employees to perform the reconciliations during most of the fiscal year. Department personnel indicated that preparation of these reconciliations has not been a priority. According to Department personnel, one employee (who has since terminated employment with the Department) may have prepared reconciliations for all months; however, the Department could not locate them. We tried to reconcile FM13 cash and federal account balances and in so doing we identified numerous variances between the balances in the Department's accounting records and those in STARS. The Department did not provide us with explanations for these variances and we did not determine why the variances exist or which records are correct.

We recommend the Department develop and implement procedures to ensure that all required reconciliations are prepared and reviewed in accordance with State policy; that all reconciling items are identified; and that all detected errors in DJJ's balances in accounting records and in STARS are promptly corrected.

CAPITAL PROJECTS

To oversee its permanent improvement projects program and to track status, budgets, and expenditures for all projects, the State uses the Statewide Permanent Improvements Reporting System (SPIRS). During our review of the Department's Permanent Improvement Projects Carryforward Schedule and the SPIRS Project Status Report, we noted that several capital projects were completed as of June 30, 2000. However, these projects remained open on SPIRS when they should have already been closed out. The completed projects and the project balances remaining are as follows:

<u>Project Number and Title</u>	<u>Budget Balance</u>
9542 – Hope House Dormitory Construction	\$ 1.14
9549 – Shivers Road Dormitory Construction	114.68
9557 – Prison Industries Building Construction	8,522.31
9560 – Main Campus Parking Lot Construction	16,667.16
9531 – Regional Reception and Evaluation Centers	<u>32,138.15</u>
	<u>\$57,443.44</u>

Projects 9531 and 9557 were funded with State capital improvement bond (CIB) proceeds. As of June 30, 2000, the \$40,660.46 balance for these two projects had not been transferred to the Bond Contingency Revolving Fund. This finding was described in our fiscal year 1999 report.

Part 1, Chapter 4, of the Manual for Planning and Execution of State Permanent Improvements states, “In order to close-out a project and remove the project from the SPIRS system, the project balance must be zero. This means the final project budget at close-out must equal the final expenditure amount on the project.” Also, Section 11-9-140 of the 1976 South Carolina Code of Laws states, in part, the following:

The State Budget and Control Board may transfer to the Bond Contingency Revolving Fund any capital improvement bond project balances determined not to be usable or needed ... Before accomplishing a transfer of this type, the required determination must be made by the agency for which the funds were authorized ... and the board must find that the purpose for which the funds were authorized has been achieved.

We recommend the Department follow appropriate SPIRS procedures to close all of its completed projects. In addition, the Department should design and implement policies and procedures to monitor its SPIRS projects on an ongoing basis in order to timely identify and close out completed projects in SPIRS and to timely notify the State Budget and Control Board to transfer unexpended CIB balances for completed projects to the Bond Contingency Revolving Fund.

LEGAL SERVICES

The Department paid for certain legal services that were not properly authorized by the South Carolina Attorney General's Office (AGO). The Department submitted the "South Carolina Attorney General Request for Authorization to Employ Associate Council" form to the AGO on January 19, 2000, for the required approval of attorney services to be provided from January 19, 2000, through June 30, 2000. The Attorney General approved the maximum requested compensation of \$18,000 on January 19, 2000. However, the Department paid a total of \$131,923 to the attorney during the stated dates of service.

Proviso 32.3. of Part IB of the 1999-2000 Appropriation Act states the following:

No department or agency of the State Government shall engage on a fee basis any attorney at law except upon the written approval of the Attorney General and upon such fee as shall be approved by him ...

We recommend the Department establish and implement procedures to ensure that it obtains approval from the South Carolina Attorney General's Office prior to engaging an attorney on a fee basis, to monitor services and cumulative costs under each approved procurement, and to obtain advance approval for expansion of services and/or increased fees.

DISBURSEMENT CONTROLS AND CANCELLATION OF VOUCHER DOCUMENTATION

For 24 of the 25 disbursement vouchers in our expenditures test the Department did not cancel the voucher, vendor invoice, and supporting documentation to prevent reprocessing and the creation of duplicate checks. In addition, five of the 25 journal entries tested were to record receipt of refunds of prior and current year duplicate payments and another of the 25 cancelled a voucher for an invoice that had already been paid in the current year. (DJJ returned the check for the duplicate payment to the State Treasurer's Office to be voided. Furthermore, the refunds of prior year duplicate payments were remitted to the State General Fund as required by State law.) We did not determine how many other journal entries were

used to record refunds for other duplicate payments, nor how many duplicate payments were not refunded by the vendor to the Department, nor how many duplicate payments were caused by reprocessing previously processed vouchers and original invoices or by processing duplicate original invoices. The Department should not rely on its vendors to detect duplicate payments and return/refund them to the agency. Similar findings were noted in the fiscal year 1999 report.

Effective internal controls over disbursements require that vouchers and supporting documentation be properly cancelled to prevent its reuse. An effective internal control system includes procedures to ensure that errors are detected and corrected by employees in the normal course of performing their assigned duties. Also, Section 2.1.3.80 of the STARS manual contains instructions for the preparation of disbursement vouchers which include that “An original invoice (not a copy) must be attached ... before it is submitted” to the OCG for processing, recording, and payment.

We recommend the Department develop and implement procedures to ensure vouchers and supporting documentation are properly cancelled after processing and the post-disbursement procedures include for such evidence before the voucher packages are filed. DJJ should develop and implement other procedures to detect duplicate vendor invoices and ensure they aren't processed for payment and to prevent and detect duplicate payments, including manual matching of data elements for the procurement and accounts payable transactions (e.g., purchase orders, receiving reports, and invoices before creating a disbursement voucher and purchase orders, invoices, and vouchers after creating the payment check).

SECTION B - OTHER WEAKNESS NOT CONSIDERED MATERIAL

The condition described in this section has been identified as a weakness subject to correction or improvement but it is not considered a material weakness or violation of State Laws, Rules, or Regulations.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE (SFFA)

Each fiscal year, the Office of the State Auditor (SAO) obtains information to prepare the State's Schedule of Expenditures of Federal Awards from the agency-prepared Schedules of Federal Financial Assistance (SFFA) and performs the Statewide Single Audit. Information on the schedule is reported using federal CFDA numbers and federal program titles. The Department's fiscal year 2000 SFFA schedule contained various errors and DJJ did not follow all of the instructions for preparing and submitting the federal program information in the prescribed format. Those instructions were sent to the Department in a letter from the SAO dated July 13, 2000.

During this engagement, we reviewed the Department's schedule and documentation and noted the following:

1. The Department reported several incorrect grant and program names and several incorrect grant and CFDA numbers on the SFFA.
2. The Department could not locate the file for one grant.
3. Reported amounts for several grants differed from those on the STARS CSA 467 report which the Department used to prepare the SFFA.
4. DJJ reported one grant under the wrong program title.
5. The Department did not separately account for all grants in its accounting system.

Similar findings were described in the fiscal year 1999 report.

We recommend that the Department develop and implement procedures that will ensure that the federal schedule and other requested information are accurate, complete, and in the detail and format specified by the SAO. The Department should establish independent review procedures for the reconciliation of federal accounts and for the federal schedule to detect and correct all errors and omissions before submission to the SAO.

SECTION C - STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountants' Comments section of the Report on Agreed-Upon Procedures regarding the accounting records and internal controls of the Department resulting from the engagement performed by other accountants for the fiscal year ended June 30, 1999, and dated June 23, 2000.

We determined that the Department has taken adequate corrective action on the findings regarding receipts; voucher supporting documentation; clerical accuracy of vouchers; invoice receipt date; invoice date and invoice number; purchase order; federal grant disbursement; new hire date; salary change authorization; employee authorizations; object codes; missing documents and inadequate support; segregation of duties; approval of interdepartmental transfers; general ledger system; numerical sequence of appropriation and interdepartmental transfers; closing packages – operating leases, reviewer checklists and accounts payable; and internal auditors. The continuing deficiencies are described in Payroll – Computation of Pay, Closing Packages, Reconciliations, Capital Projects and Disbursement Controls and Cancellation of Voucher Documentation in Section A of the Accountant's Comments in this report and in Schedule of Federal Financial Assistance (SFFA) in Section B.

MANAGEMENT'S RESPONSE



**South Carolina
Department of
Juvenile Justice**

Gina E. Wood, Director

Jim Hodges
Governor
State of South Carolina

January 11, 2002

Thomas L. Wagner, Jr., CPA
State Auditor
Office of the State Auditor
1401 Main St, Suite 1200
Columbia, SC 29201

Dear Mr. Wagner,

The South Carolina Department of Juvenile Justice has completed its review of the preliminary draft of the agreed-upon-procedures report for the fiscal year ending June 30, 2000. Our responses to the findings and the recommendations contained in this report are listed below.

AUDIT FINDINGS:

Payroll

Pay Schedule

Auditor's Recommendation: "We recommend the Department revise its procedures to ensure that it pays all of its employees in accordance with the State's established payroll period/pay date schedule until and unless the State Budget and Control Board authorizes an alternate schedule for certain DJJ employee categories."

Management's Response: We submitted a request to the Comptroller General for their approval of an alternate pay schedule. Upon denial of their support in this request, we implemented changes to adhere to Proviso 72.35 for all temporary employees effective November 2001. Security Personnel work on a 28-day cycle, as is the case at most other law enforcement agencies. Compensatory time and/or overtime cannot be calculated or paid until the completion of this 28-day cycle. We will continue to use this procedure for all security personnel.

Termination of Employment

Auditor's Recommendation: "We recommend the Department adequately train employees to properly complete PABMACS and develop and implement procedures to ensure field supervisors promptly and accurately notify OHR of all

personnel transactions including termination and submit time sheets promptly. In addition, we recommend that OHR and Payroll implement procedures for reviewing the accuracy and reasonableness of the information received from the field offices prior to paying employees. When there are errors and/or inconsistencies in the documentation, the procedures should describe how to resolve those matters and document that process and the results."

Management's Response: In one instance where the auditors stated we "cancelled the final paychecks to three employees terminating their employment and replaced them with checks for the correct amounts" the final check was cancelled and replaced with another check. However it was within the same payroll period. Due to existing internal controls, this irregularity was found and corrected resulting in the employee receiving the correct amount in the correct payroll period.

In another instance where the auditors stated we "paid two employees on the wrong payday on the State's regular schedule", we paid a temporary employee according to our schedule on hand at that time. We subsequently revised the schedule according to Provisio 72.24 as of November 2001 and currently pay our temporary help according to this schedule. The second instance involved a Juvenile Correction Officer payment. Security officers are paid on a 28-day cycle. Compensatory time or overtime cannot be determined until completion of this 28-day cycle. All compensatory time is accrued on this timely basis or overtime is paid after completion of the cycle.

Another instance cited by the auditors stated we "failed to remove two employees from the payrolls in a timely manner after they left the Department's employ." Those employees cited are temporary employees and they did not get overpaid. We have seasonal workers, on-call agents, and other various employees who do not work on a continuous basis. On an annual basis we review the status of all temporary employees. We do not believe this practice constitutes a weakness in internal controls.

We agree that additional training is required. Based on suggestions from the field as well as Office of Human Resources (OHR) and Fiscal Affairs Office (FAO) staffs, DJJ developed a Personnel Action Form (PAF) that replaced the PABMACS. It was developed in a MSWord format that is easier to fill out. OHR conducted three training sessions on the correct use of the PAF with a total of 78 participants. A member of the FAO staff provided information on the importance of timely submission of changes affecting salary or termination and provided copies of the payroll submission schedules. Priority for training went to the Human Resources Liaisons (generally the senior administrative assistant for divisions, offices and institutions). The Human Resources Liaisons further instruct other administrative and supervisory staff and perform quality control review as the forms are completed and sent to OHR.

Training in PAF completion and the importance of timely submission of terminations will be repeated in future OHR/FAO periodic training sessions. Any remaining errors that are changed at OHR/FAO or other changes necessitated by more recent information are made by pen and ink correction and initialed by the OHR/FAO staff member making the changes. If the reason for the change is not obvious, a short explanation will be provided on the form or an attached memorandum for the record.

Computation of Pay

Auditor's recommendation: "We recommend the Department pay the balances due to individuals who were underpaid and recover the overpayment. In addition, the Department should design and implement procedures for the independent verification of the information (e.g. pay rates, work hours, termination dates, leave balances) used in pay computations and independent reviews of those calculations. We further recommend that when DJJ detects or becomes aware of incorrect payroll amounts during its performance of independent review and verification procedures before the payroll voucher is approved or anytime thereafter, it should determine the causes of the errors and implement procedures to improve controls and prevent recurrence of such errors."

Management's Response: We agree that additional training is needed and currently offer training for correct preparation of PAFs. We continue to stress the importance of timely submission of these documents to the field offices. In one instance the auditor found that we overpaid an employee by \$146. We agree and have subsequently sent a letter to recoup these funds. However, in one case we were able to recoup overpaid funds through deductions of annual leave during the final pay. In the last case, the employee was neither underpaid nor overpaid. The employee was on "leave without pay" for the four hours in question.

We do not agree that the case cited by the auditor, which stated that we "miscalculated the first pay for one employee" by \$8 is an internal control weakness. There was an error in calculation; however internal controls brought this to our attention. The amount was recalculated as a "late change" and corrected in the same payroll for the correct amount. No checks were voided, no overpayments were made and no amount is due to or from the employee.

Closing Packages

General

Auditors recommendation: "We recommend that the Department assign staff to prepare and review closing packages who are knowledgeable of the applicable GAAP; adequately trained in and familiar with the applicable GAAP Manual guidance and requirements; and thoroughly familiar with the applicable agency

data for completion of the assigned closing package. Also, we recommend the agency implement procedures to help ensure that all closing packages including the Closing Package Control Checklist contain accurate and complete information in accordance with the GAAP Manual instructions...."

Management's Response: We have reassigned responsibility for closing packages to those who are most familiar with the operations. Compensated Absences Closing Package is now completed by OHR. A review by qualified individuals familiar with the data is now required.

Fixed Assets

Auditor's recommendation: "We recommend DJJ record adjustments by fixed asset account in its accounting records and in its detail fixed assets records.....

Management's Response: We agree with the auditors findings. On the Fixed Assets Closing Package, we made changes on the closing package but failed to followup with corresponding entries on our subsidiary ledger. We have implemented procedures to ensure that ending balances are compared to subsidiary ledgers prior to submission of the closing package.

Compensated Absences

Auditor's recommendation: "We recommend the Department implement fiscal year-end procedures to ensure there is proper cutoff of all leave records (including those for holiday and overtime compensatory time and annual leave reported on the compensated absences closing package)...Also, we recommend the Department evaluate its policy regarding responsibility for compensatory leave records to determine whether they should continue to be maintained in the field offices or whether responsibility therefor should be transferred to the OHR...."

Management's Response: We agree with the auditors. Effective in FY2000, the OHR has received the responsibility for completion of this closing package. We now require substantial and reasonable documentation for support. We also now require interim reports for trend analysis and accuracy. Individual training classes with field supervisors have been completed and will be rescheduled as necessary. OHR will evaluate its policy regarding responsibility for compensatory leave records to determine whether they should continue to be maintained in the field offices or whether responsibility therefor should be transferred to the OHR.

Reconciliations

Auditors recommendation: “We recommend the Department develop and implement procedures to ensure that all required reconciliations are prepared and reviewed in accordance with State policy...”

Management’s Response: We agree with the auditors on reconciliations. DJJ started the reconciliation process mid year during an evaluation of procedures. Although reconciliations were delinquent during the audit in question, they are now current. We have implemented new procedures to continue with reconciliations on a monthly basis.

Capital Projects

Auditor’s recommendation: “We recommend the Department follow appropriate SPIRS procedures to close all of its completed projects. In addition, the Department should design and implement policies and procedures to monitor its SPIRS projects on an ongoing basis..”

Management’s Response: We agree with the auditors recommendation. We have communicated with field personnel responsible for closing projects and have initiated additional training.

Legal Services

Auditor’s recommendation: “We recommend the Department establish and implement procedures to ensure that it obtains approval from the S.C. Attorney General’s Office prior to engaging an attorney on a fee basis...and to obtain advance approval for expansion of services and/or increased fees.”

Management’s Response: We agree. The legal department has been informed of the necessity of obtaining a Form I for every fiscal year. We have also implemented follow up procedures to ensure that this form is attached to the Purchase Order.

Disbursement Controls and Cancellation of Voucher Documentation

Auditor’s Recommendation: “We recommend the Department develop and implement procedures to ensure vouchers and supporting documentation are properly cancelled after processing andensure they aren’t processed for payment to prevent and detect duplicate payments...”

Management’s Response: We agree. We have initiated a process for marking the paid invoices since August 2001.

Other Weakness Not Considered Material

Schedule of Federal Financial Assistance

Auditor's recommendation: "We recommend that the Department develop and implement procedures that will ensure that the federal schedule and other requested information are accurate, complete, and in the detail and format specified by the SAO..."

Management's Response: We agree. On several grants we had reported an incorrect CFDA number or under the wrong program title. New personnel have been assigned to complete this closing package. This person has received detailed instructions and ongoing updates. An independent review will be provided by a knowledgeable person familiar with grants.

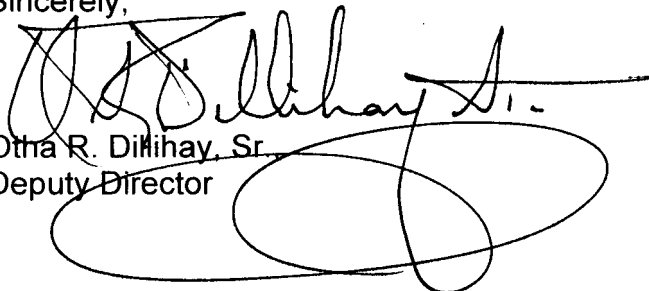
Status of Prior Findings

Auditors findings: "We determined the Department has taken adequate corrective action on the findings regarding receipts; voucher supporting documentation; clerical accuracy of vouchers; invoice date and invoice number; purchase order; federal grant disbursement, new hire date; salary change authorization; employee authorizations; object codes; missing documents and inadequate support; segregation of duties; approval of interdepartmental transfers; general ledger system; numerical sequence of appropriation and interdepartmental transfers; closing packages-operating leases, reviewer checklists and accounts payable; and internal auditors. "

Management's response: We have corrected the vast majority of prior findings and have developed policies and procedures that will enhance operations of DJJ in an efficient and effective manner. We will continue to work together to correct all internal control weaknesses.

We would like to thank you for your courteous and professional attention. We have benefited tremendously from this review and I am sure that DJJ will continue to strive towards perfecting its accounting procedures. Should you have any questions or require any additional information, please don't hesitate to call Carol Seawright, Fiscal Affairs Administrator at 896-5638 or you may call me at 896-9744.

Sincerely,



Otha R. Dillihay, Sr.
Deputy Director

5 copies of this document were published at an estimated printing cost of \$1.98 each, and a total printing cost of \$9.90. The FY 2000-01 Appropriation Act requires that this information on printing costs be added to the document.